2. Data and Descriptive Statistics.

The empirical analysis in this paper is based on annual balance sheet data collected by Mediobanca for a closed sample of 974 private companies, mainly in the industrial sector, over the period 1968-1991. The firms in the sample account approximately for 20% of value added in manufacturing. The length of the period covered, and the opportunity it provides to analyze the response to several contractionary episodes, are other attractive features of this data set. The sample is divided into two size categories, and aggregate data are available for two sub samples of 779 large(r) and 195 small(er) firms. In order to be classified as small, a firm has to be independent from industrial groups, must have total sales of less than 10 billion lira and a capital stock less than 1 billion lira in 1968, and total sales less than 100 billion lira, capital stock less than 30 billion lira, and less than 1000 workers in 1991. The average employment size is 143 workers for small firms and 876 workers for large firms. Micro firms are absent from the sample, and in an Italian context what we call small firms could be considered medium-sized.[9] Yet, the size differential between the two groups of firms is substantial, and so are other characteristics. In order to be included in the sample a firm must have been in existence for the 1968-1991 period. If a firm merges with another firm, the two joined firms are considered as a single entity for the entire period. If a firm goes bankrupt, which is quite rare in the Italian context, it is eliminated from the sample. If a firm that is below the initial ceilings grows beyond the specified final limits is classified as a large firm. However, the distribution of small firms relative to the ceilings is such that a firm can have a high growth rate and yet remains classified as small. The overall impression one obtains from the descriptive statistics discussed in detail below is that the small firms in the sample are more dynamic and more profitable than large firms. This means that we are dealing with a group of small companies that have been fairly successful. In this sense the nature of the data may bias the results against finding differences in behavior between small and large firms due to capital market imperfections. If significant differences are found and can be reasonably imputed to different degrees of financial constraint, this means that capital market imperfections are likely to be of even greater importance for those smaller, younger, and riskier small firms not included in the sample.

9 Actually Mediobanca calls these firms "medie".